



Union of Concerned Scientists

Citizens and Scientists for Environmental Solutions

October 14, 2009

Dr. Lawrence Goulder
Chair, Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814
Comments sent via email to: eaac@calepa.ca.gov

Re: UCS Comments on EAAC's Work Related to Offsets

Dear Dr. Goulder and Members of EAAC:

UCS appreciates the diligent and thoughtful work of the EAAC committee. At the October 7 meeting, several EAAC members expressed an interest in exploring issues related to constraining offsets, whether through a quantitative limit, zonal restrictions on use, or a surcharge for offset use in certain areas.

We encourage all three EAAC subcommittees to consider the role of offsets as the committees proceed toward their final recommendations. Our specific recommendations for each subcommittee are in the conclusion of this memo.

We first wanted to call your attention to legislation that was passed by the California legislature in September 2009. AB 1404 (De Leon) sets a quantitative limit on the use of compliance offsets in a state cap and trade program of no more than 10% of the emission reductions. AB 1404 also directs CARB to prioritize offsets that provide environmental and public health co-benefits to California.

AB 1404 was the only bill dealing with AB 32's cap and trade program that was passed by the legislature in 2009. The issue of offset limits rose to the top of all the AB 32 issues that were considered because the legislature feels strongly that the California Air Resource Board's proposed offset limit of 49% of reductions is too permissive, and would not fulfill AB 32's mandate to maximize co-benefits for the state, such as job creation, technology innovation, and improved air quality. Although the legislature trusts the highly skilled technical staff at CARB to develop the vast majority of the detailed rulemakings to implement AB 32, they feel that determining the offset limit will have such a significant impact on many aspects of public policy that it was imperative to weigh in on this specific issue before the CARB rulemaking process was complete.

More than 90 organizations, businesses, and experts endorsed and worked in support of AB 1404 (complete list attached). The endorsers represent a broad range of clean tech business, labor, public health, social equity, and environmental experts and organizations. The deep



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concerns these organizations and businesses have over the proposed 49% offset limit have also been echoed by members of the CARB Board, who included language in their Board Resolution of December 11, 2008 directing CARB to consider the “economic and co-benefit effects of limits on the use of offsets.”

On October 12, the governor vetoed AB 1404. His carefully worded veto message did not speak to the substance of the bill, but simply stated that the bill was premature because the EAAC had not yet completed its set of recommendations on how the cap and trade program should be designed. In light of this veto message, we encourage the EAAC subcommittees to do the following:

1) Allowance Allocation

In determining a range of potential allowance prices, calculate both the impact of offsets on allowance price (economic savings for the regulated firms) as well as the value of environmental, public health, and other co-benefits to California that are achieved through direct reductions in the capped sectors and may be lost through the use of offsets (economic loss to the state/commons).

2) Allowance Value Provision

Determine the loss of potential revenue to/investment in the state due to 1) the out-flow of capital to private offset credit sellers (who may be outside of the state) and 2) possible decreases in allowance price due to the use of varying amounts of offsets. Determine how this loss of allowance value to the state may affect recommended strategies for compensation, investment, dividend, and other options for allowance value provision.

3) Economic Modeling

Evaluate the affect on allowance price of differing amounts of offsets and assess the related affects on the state economy, public health, and the environment. Make recommendations to CARB modelers on how to best determine the economic and co-benefit effects of various limits or constraints on offsets, including a recommendation on how to optimally incorporate the value of various co-benefits into the modeling, possibly through an exogenous adder or other means, as appropriate.

As you know, CARB has not yet officially made a decision on an offset limit. Although setting the offset limit is ultimately a policy decision, we believe that your input on these issues will help guide CARB toward the most well-informed decisions.

Thank you,

Erin Rogers
Western States Climate Campaign Manager



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cc:

Mary Nichols

James Goldstene

Kevin Kennedy

Judith Friedman

Anthony Eggert

Michael Gibbs

Assembly Member Kevin De Leon

Assembly Member V.Manuel Perez

David Crane



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ATTACHEMENT—AB 1404 ENDORSERS

Environmental/Environmental Justice

African American Environmentalist Association
Bayview Hunters Point Community Advocates
California League of Conservation Voters
Central Valley Air Quality Coalition
Global Warming and Air Quality Committee, Legislative Committee
Center for Biological Diversity
Center for Environmental Health
Clean Air Now
Coalition for Clean Air
Communities for Clean Ports
Earth Day Los Angeles
End Oil
Environment California
Environmental Working Group
Forests Forever
Global Green USA
International Rivers
Moms CAN (Clean Air Network)
National Parks Conservation Association
Natural Resources Defense Council
Our Children's Earth Foundation
Planning and Conservation League
San Diego Environmental Foundation
Sierra Club California
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Clean Technology and Other Businesses Groups

Ausra
California Wind Energy Association
Clean Power Campaign
Cleantech America, Inc.
enXco
Large Scale Solar Association

Luminalt Solar
New Voice of Business
Recurrent Energy
Sharp, USA
Solaria
Solar Millennium
SolFocus
Suntech America
Sustainable Energy Partners
Sungevity
Vote Solar

Public Health Groups

American Cancer Society
American Lung Association of California
Breathe California
Breast Cancer Fund
California Thoracic Society
California Pan-Ethnic Health Network

Community Action to Fight Asthma
Fresno-Madera Medical Society
Latino Coalition for a Healthy California
Medical Advocates for Healthy Air
Merced/Mariposa County Asthma Coalition
Physicians for Social Responsibility SF-Bay Area Chapter
Public Health Institute
Public Health Law and Policy
Regional Asthma Management and Prevention

Health Experts

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Faith-Based Groups

California Interfaith Power and Light
Catholic Charities, Diocese of Stockton
Fresno Metro Ministry
Faith2Green
Lutheran Office of Public Policy
Orange County Interfaith Coalition for
the Environment

Labor

California State Building &
Construction Trades Council, AFL-CIO
California Labor Federation
Engineers and Scientists of California,
Local 20 IFPTE
San Francisco Labor Council

Social Justice

California Apollo Alliance
California State NAACP
Ella Baker Center
Latino Coalition for a Healthy
California

* *Institution listed for affiliation only*